Self-starters hit by mortgage squeeze

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Ben Gurr for The Times

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Millions of people now work for themselves but are struggling to persuade banks to lend to them, says Leah Milner

Before the credit crunch there was no shortage of lenders willing to offer mortgages to self-employed borrowers, but now you will need a good accountant and up to three years' accounts to qualify with many banks and building societies.

At the peak of the market, in 2007, most lenders were offering self-certification mortgages, which allowed people to borrow money without proving their income. But some customers and brokers abused these deals, which became known as "liar loans", and over-inflated their income to get bigger mortgages.

As a result lenders stopped offering self-certification mortgages and the Financial Services Authority, the City watchdog, unveiled plans to insist that borrowers prove their income before being granted a home loan.

People who have started their own business since the recession will find that getting finance from the banks for their new venture is not their only problem; they may also struggle to get a home loan. People who were employed when they took out their mortgage but are now self-employed may also be stuck if they try to move to a bigger home. Research by Kensington Mortgages, a lender, indicates that the number of self-employed workers has increased by a million since the slump.

David Hollingworth, of the mortgage brokers London & Country, says: "There has been a huge shift in the market's approach to self-employed borrowers, and those with little track record are the ones that will suffer the most. The move to far more rigorous requirements for evidence of income shows how much lending conditions have tightened since the credit crunch.”

Most mortgage lenders, including ING Direct, Nationwide Building Society, NatWest, Northern Rock and Santander, require that self-employed borrowers provide two years of business accounts certified by a qualified accountant or a self-assessment tax return for the same period. However, some other mainstream mortgage lenders are stricter, such as Woolwich, the mortgage division of Barclays, and Halifax, part of Lloyds Banking Group, which both ask for three years of accounts. HSBC and First Direct say they usually ask for three years’ accounts, but will consider borrowers with a shorter history on a case by case basis.

Other specialist lenders, which only offer mortgages via brokers, may be more flexible. Kensington Mortgages says that it would ideally require a minimum of three years of trading history showing a net profit. However, in some cases it may accept one year, with income verified by a qualified accountant.

Lenders usually define borrowers as self-employed if they are a sole trader, a partner or a director with a shareholding of more than 20 per cent in their company. Nationwide Building Society, for example, says that when a client has less than 20 per cent, he or she will be treated as “employed” and it will use the P60 and latest payslip to confirm income. If this income is not enough to secure the size of mortgage requested and dividend income needs to be taken into account, the applicant will be treated as self-employed and will need two years’ certified accounts.

James Meekings, 28, set up a company last year with other founders to help to address some of the difficulties many small businesses have in raising money from the banks. But working on a new venture made it difficult for Mr Meekings to get a mortgage on his own home with his girlfriend Amy McGee, 27, a management consultant.

Mr Meekings says: “I do not think we would have managed without a mortgage broker. We initially applied to Northern Rock but it was very laborious and the lender kept coming backfor more and more information. Nationwide was also very strict even though we have a bank account with them. In the end we decided to go through Santander instead.”

Borrowers who are on fixed-term contracts may also have difficulties securing a mortgage. Lenders may ask for supporting documentation or references to show that they are likely to have their contract renewed or be able to find similar work on an equivalent salary when it ends.

Aaron Strutt, of Trinity Financial Group, the mortgage brokers, says: “The more information you can supply the lender, the greater the chance of success.”

However, casual employees may face greater hurdles because some lenders, such as Nationwide, rule them out completely. Lenders who will look at casual employees are likely to demand a large deposit and a flawless credit history.

Halifax says that it will not usually accept agency workers, but it may consider those who can prove that they have worked for at least 18 months continuously in the same field and provide supporting references.

‘I feel the bank is losing out’

Louise Barnett, 39, owns her own public relations business, Louise Barnett PR, and her husband Nick, 40, is an IT systems manager.

The couple, from Fleet in Hampshire, originally had a variable-rate mortgage with First Direct, but when they tried to move to a larger property they had problems because Mrs Barnett’s employment status had changed.

Mrs Barnett had become self-employed since the couple took out their first mortgage and while they have both banked with First Direct for many years, they did not meet its criteria, as the lender required at least three years’ of accounts. References from her agency’s clients were not enough, so eventually they managed to secure a mortgage by using a broker at London & Country.

Mrs Barnett says: “I was disappointed because First Direct had good rates and we were loyal customers. My husband’s income had increased and mine had remained stable. As a professional who has run a successful business, that’s set to grow, I feel it’s the bank that is losing out.”

The couple have now secured a lifetime tracker at base rate plus 2.57 per cent with Halifax, but have not yet moved into their new home.